This profile captures key financial trends before, during, and after the Great Recession for San Francisco, one of 30 cities examined by The Pew Charitable Trusts' American cities project. These profiles provide baselines for understanding the fiscal conditions of our cities and for ongoing research, analysis, and policy guidance.

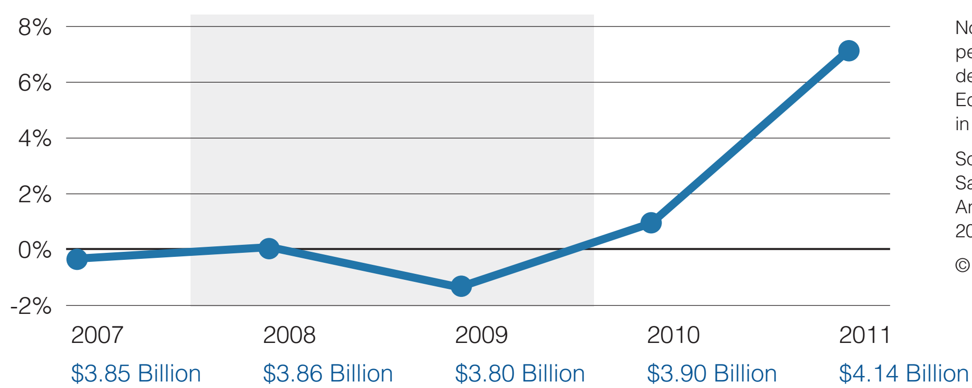
San Francisco

Revenue grew while San Francisco controlled spending and long-term obligations

San Francisco's 2011 revenue surpassed its pre-downturn peak by 7 percent, signaling a fiscal rebound from the Great Recession.[1] (See Figure 1.) Three major categories of revenue—property taxes, state and federal funds, and other taxes—all increased between 2009 and 2011. But even though revenue was growing, operating spending remained flat during this period. As a result, reserves were mostly replenished in 2011, and city pension benefits remained nearly fully funded. At the same time, voters approved changes to control costs for other retiree benefits.[2]

FIGURE 1

San Francisco Governmental Revenue, Percent Change From Pre-downturn Peak, 2007-11



Note: Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research. Amounts are in 2011 dollars.

Source: Pew calculations from San Francisco's Comprehensive Annual Financial Reports for fiscal 2007-11.

Revenue rebounded because of increased tax rates on property and real estate transactions

San Francisco's rebound was driven in part by its property tax. Collections grew $79 million from the 2009 revenue low point to 2011, fueled by a rate increase and the city's strong housing market.[3] In addition, other local taxes grew $108 million primarily because of a 2008 voter-approved increase in the transfer tax rate on all real estate transactions greater than $5 million.[4]

Aid from other governments increased $123 million, after adjusting for inflation, in the same time frame because of increases in federal contributions, including grants to the city under the American Recovery and Reinvestment Act.

San Francisco drew down reserves and cut spending to address revenue shortfalls

As San Francisco's revenue declined heading into the Great Recession, the city drew down 56 percent of its reserves to cover costs. Between 2009 and 2011, San Francisco stopped using reserves and decreased its operating spending by $15 million. (See Figure 2.)

The city reduced social service and health activities, which were the consolidated city-county government's largest expenditure area, by $38 million.[5] These cuts included eliminating 327 full-time community health employees and 150 human welfare and neighborhood development employees.[6] Aid payments and assistance for human welfare and neighborhood development were also reduced.[7] Public works and transportation expenditures decreased $27 million. Parks, recreation, and cultural facilities spending dipped $10 million.

At the same time, however, debt service payments increased from $213 million in 2009 to $255 million in 2011, and San Francisco increased spending on public safety by $9 million.

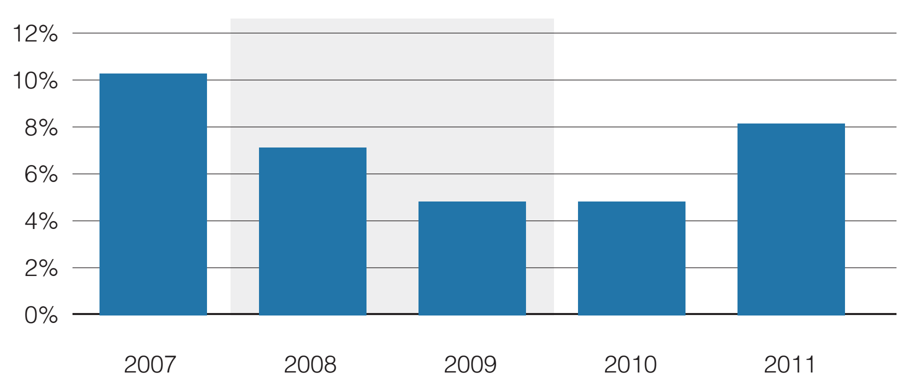
Managing the future: Pension changes and a new reserves policy helped to shore up the city's fiscal future

Demand for services, investment decisions, and revenue performance driven by economic activity and demographic changes will shape San Diego's fiscal future. Long-term obligations that can be analyzed using the data available are pensions and retiree health care and other benefits.

As a result of San Francisco's significant drawdown of reserves, San Francisco's Board of Supervisors adopted a policy in 2010 that requires automatic funding of dedicated reserves when certain fiscal conditions are met.[8] This policy, combined with the spending cuts, allowed the city to replenish its reserves to $243 million in 2011, most of the way back to pre-downturn levels.

FIGURE 2

San Francisco Reserve Funds as a Percent of Total General Fund Revenue, 2007-11



Note: Reserve funds are represented by the unreserved general fund balance as a percent of total general fund revenues. Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research.

Source: Pew calculations from San Francisco's Comprehensive Annual Financial Reports for fiscal 2007-11.

The city's pension system was almost fully funded in 2010, though its 91 percent funding ratio that year was down noticeably from 2007. Furthermore, other benefits—primarily health care—continued to be a challenge.[9] In 2010, assets covered less than 1 percent of $4.4 billion in retiree health care liabilities. In 2011, however, city voters approved a measure that increased the employee contribution rate and required new employees to work 20 years before becoming fully eligible.[10] These changes will help slow the growth of these obligations.

See Pew's 30-city interactive at pewstates.org/City-Fiscal-Conditions-Interactive for complete data.

Endnotes

1 Pew's preliminary review of 2012 data, not yet available for all 30 cities studied, indicates San Francisco's rebound continued into 2012.

2 See the full study methodology at pewstates.org/City-Fiscal-Methodology for a detailed explanation of the terms used in this profile and view the underlying data at pewstates.org/City-Fiscal-Conditions-Interactive.

3 The property tax rate increased from 1.159 to 1.1718 percent. City and County of San Francisco, *Comprehensive Annual Financial Report, for the Year Ended June 30, 2012* (2012), ii, http://www.sfcontroller.org/modules/showdocument.aspx?documentid=3923; and City and County of San Francisco, Tax Rate History (2012), 1, http://sfcontroller.org/Modules/ShowDocument.aspx?documentid=250.

4 The property transfer tax rate increased from 0.75 to 1.5 percent for all transactions greater than $5 million. This is separate from the property tax rate, which is assessed on all property, not just properties that are sold in a given year. City and County of San Francisco, *Comprehensive Annual Financial Report, for the Year Ended June 30, 2011* (2011), 11, http://www.sfcontroller.org/index.aspx?page=467.

5 Social service and health functions are typically the domain of county governments, and 10 of the 30 cities examined did not include social service or health expenditures in their annual reporting.

6 City and County of San Francisco, *Comprehensive Annual Financial Report, for the Year Ended June 30, 2011*, 221.

7 Ibid, 12.

8 *Ordinance Amending the San Francisco Administrative Code by Adding Section 10.60, to Adopt a Binding Financial Policy Under Charter Section 9.120 Created a General Reserve and a Budget Stabilization Reserve and Providing Rules for Deposits to and Withdrawals From Such Funds* (2010), http://www.sfbos.org/ftp/uploadedfiles/bdsupvrs/ordinances10/o0091-10.pdf.

9 San Francisco, like Los Angeles, is one of the few cities with a requirement to fully fund its actuarially recommended contribution each year. For more information on and analysis of the state of retirement funding in the 30 cities, see The Pew Charitable Trusts, American cities project, *Cities Squeezed by Pension and Retiree Health Care Shortfalls* (March 2013), http://www.pewstates.org/uploadedFiles/PCS_Assets/2013/Pew_city_pensions_brief.pdf.

10 Judy Lin, "Cost of Public Retiree Health Care Soars in Calif.," Associated Press, *San Diego Union-Tribune* (April 21, 2012), http://www.utsandiego.com/news/2012/apr/21/cost-of-public-retiree-health-care-soars-in-calif; and League of Women Voters of San Francisco, "Proposition C—City Retirement and Health Care Benefits," *Voters' Guide* (2011), http://lwvsf.org/pages/PropositionC_2011.html. Proposition C passed with 69 percent of the vote in November 2011.